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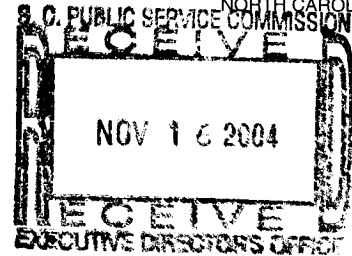
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November 16, 2004

**VIA HAND DELIVERY**

The Honorable George N. Dorn, Jr.  
Interim Executive Director  
The Public Service Commission of South Carolina  
101 Executive Center Drive, Suite 100  
Columbia, South Carolina 29210

RE: Duke Power, a Division of Duke Energy Corporation  
Request to Forgo and Write-Off Recovery of Fuel Costs  
Docket Number 2004-324-E

Dear Mr. Dorn:

Duke Power, a division of Duke Energy Corporation ("Duke"), by counsel, hereby requests approval of the Public Service Commission of South Carolina (the "Commission") to forgo and write off recovery of certain fuel costs.

In its 2004 fuel rate proceeding (Docket No. 2004-3-E), Duke projected that under its proposed fuel rates it would under-recover its fuel costs during the 2004-2005 fuel year. The Commission approved Duke's proposed rate, after hearing, by order number 2004-274, issued on October 14, 2004.

Also, on November 15, 2004, Duke filed its "Motion to Continue Fuel Factor and Alter Hearing Schedule" in Commission Docket Number 2004-324-E ("Duke's Motion"). In that

motion, Duke requested this Commission (i) to allow Duke to continue its presently approved fuel factor from June 1, 2005 until October 1, 2005 and (ii) to alter the present Commission schedule for hearings to review electrical utilities' base rates for fuel costs by scheduling Duke's next fuel hearing for August 2005, with an effective date in October 2005 for the 2005/2006 fuel factor.

As it projected in the 2004 Fuel Proceeding, Duke has been under-recovering its fuel costs under its presently approved fuel factor.<sup>1</sup> On a monthly basis, Duke compares revenues collected from its South Carolina retail customers through the current fuel factor to Duke's actual fuel costs allocable to Duke's South Carolina retail customers. If Duke has over-recovered, it records a liability for that month which accrues to the benefit of Duke's South Carolina retail customers in a future annual review of base rates for fuel costs. If Duke has under-recovered, it records a receivable for that month for collection from Duke's South Carolina retail customers in a future annual review of base rates for fuel costs. The cumulative effect is either a liability or a receivable on Duke's books. At a future annual review of base rates for fuel costs, Duke includes, in its calculation of an appropriate fuel factor for the upcoming period, any over or under-recovery known at that time plus an estimated amount for the two month calendar period until a new fuel factor would become effective.

Importantly, the continuance of its present fuel factor until October 1, 2005 as requested in Duke's Motion, could lead to a further and greater under-recovery of fuel costs. In the 2004 Fuel Proceeding, the Commission expressed concern about possible "rate shock" to Duke's retail customers at the conclusion of the 2004/2005 fuel cycle, if and when Duke sought to recover fuel costs not recovered by the current fuel factor. Also, some of Duke's large industrial customers have expressed concerns in the past when conditions have required Duke to seek an increase in its fuel factor.

To mitigate these concerns, Duke requests this Commission's approval to forgo the collection of and write off of anticipated fuel revenues (that is, the projected under-recovery) up to an amount of 16 million dollars. Specifically, Duke would write off the cumulative receivable balance for fuel costs at the time of a Commission order approving Duke's request to forgo recovery of accrued fuel costs and will also forgo and write off recovery of any additional receivable balance for fuel costs as it occurs up to 16 million dollars, accrued through September 30, 2005.<sup>2</sup> If Duke's request is approved and the actual under-recovery is at least 16 million dollars, such approval will reduce the amount that Duke would seek to recover in its next annual hearing to review base rates for fuel costs by 16 million dollars. If the projected under-recovery is realized, when Duke calculates its recommended fuel factor for 2005/2006, the calculation will result in a factor that will be approximately 0.07 cent/kWh less than it otherwise would be and will result in an actual savings for all of Duke's customers.

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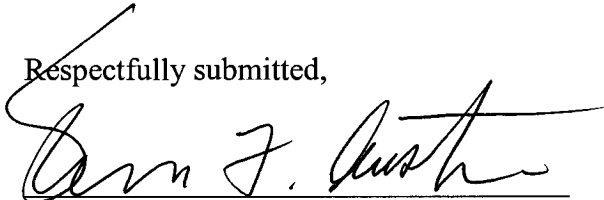
<sup>1</sup> Duke's fuel costs are increasing due to increasing costs of Duke's coal purchases and Duke's increasing use of its coal units to meet electric demand.

<sup>2</sup> Duke currently anticipates fuel under-recovery in excess of \$16 million by September 30, 2005. However, if, due to circumstances such as milder than expected weather, Duke's actual fuel under-recovery is less than \$16 million, Duke would write-off only the under-recovery that does occur.

Based on the forgoing, Duke requests that this Commission issue an order in Docket Number 2004-324-E, allowing Duke to forgo and write off recovery of fuel costs of up to 16 million dollars to the extent that it occurs in the timeframe set forth above. Duke requests that this letter be received in light of Duke's Motion and because of this request's relation to the relief sought in the docket established in Duke's Motion.

Let us know if you have any questions or concerns.

Respectfully submitted,



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